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National Cable Television Association

State Telecommunications Policy

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October 7, 1996

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OCT - 7 1996

Federal Communications Commission
Office of Secretary

EX PARTE

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W.- Rm. 222
Washington, D.C. 20554

Re: CS Docket No. 96-45

Dear Mr. Caton:

On October 3, 1996 Richard Cimerman and Teresa Pitts of The National Cable Television Association met with Commissioner Laska Schoenfelder and Staffperson Charlie Bolle of The South Dakota Public Service Commission to discuss NCTA's position on Universal Service.

Please find attached a copy of the handouts Richard and Teresa distributed to all parties during the meeting.

If you have any questions concerning this matter, please contact the undersigned.

Sincerely,

Richard Cimerman
Teresa Pitts

Richard Cimerman
Teresa Pitts
Directors, State Telecommunications Policy

California ALJ Decision
Universal Service

PacBell Cost Proxy Model (CPM) adopted

$1.7 billion PacBell result reduced by $1.452 billion

12 Adjustments Made

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CPM Adjustments 1

Number of Lines Subsidized

Reduction of $56.96 Million

Subsidize only 1 line

Drop Costs

Reduction of $39.7 Million

Share cost of drop over 2 pairs

Cable & Conduit Costs

Reduction of $46.06 Million

Revised copper cable cost

Additional reduction of $95.2 Million

Add function to reflect conduit cost on per trench foot basis

CPM Adjustments 2

Fiber Feeder Cut-Off

Reduction of $77.6 Million

Adjust fiber/copper crossover from 9,000 to 12,000 feet

Fill Factors

Reduction of $90.7 Million

Consistency with OANAD proceeding

Depreciation

Reduction of $245 Million

Facilities used for universal service face less obsolescence than facilities used for advanced telecom services

CPM Adjustments 3

Reordering of Switches
Reduction of $107.05 Million
Mismatch of switches with density zones

Outside Plant Factor
Reduction of $33.8 Million
Correct inappropriate adjustment for outside plant costs in dense areas

Switching Costs
No Change

CPM Adjustments 4

Shared & Common Costs

Reduction of $415.7 Million
Improper allocation to basic residential service

Rearrangements & Nonrecurring Burden

Reduction of 75% in each category - or $207.5 Million
Quick dialtone requirement means few facilities will be rearranged and most installs will involve only C.O. changes

Directory Assistance

Reduction of $48.4 Million
Examination of actual call volumes

Summary of NCTA Position

Small Fund
Competitively Neutral
All Carriers Contribute
Assessed on Net Telecom Revenue
Existing Mechanism Unsustainable
Changes unnecessary to Lifeline & Link-Up

Why Benchmark Cost Model

Forward Looking Incremental Costs
Economic Non-Embedded Costs
Competitively Neutral
Sustainable without Separations
Allows National Benchmark Rate for Federal Funding with State Option for Additional
Allows Geographic Deaveraging of Costs
Does Not Rely on Reported Costs thus System is Less Subject to Gaming

Differences in BCM vs USF

New Perspective
    Local Rate + SLC + CCL = BCM
CBG or Wire Center vs Study Area
Forward Looking vs Embedded Loaders
Copper/Fiber Crossover

Modified BCM

Actual prices for Investments (no ARMIS)
Economic /Copper Fiber Crossover Point
Wire Center Efficiencies
Forward Looking Loaders
Switch Cost Adjustments
Primary Line Only

Caution & Conclusion

Comparisons of proxy & "actual" costs are necessarily flawed

Price Cap companies should not receive funding

Model validation -

- **test robustness of underlying logic**
- **use up-to-date information for data inputs**
- **subject model to sensitivity analyses**
- **model & inputs must be open**

DOES THE EXISTING UNIVERSAL SERVICE FUND MEASURE UP?

	YES	NO
Competitively Neutral		X
Explicitly Targeted to High Cost Areas		X
Encourages Inefficient Investment	X	

DOES THE EXISTING UNIVERSAL SERVICE FUND MEASURE UP?

Competitively Neutral

Existing Mechanism dependent upon Part 32 and Part 36

Only LEC Are Eligible

DOES THE EXISTING UNIVERSAL SERVICE FUND MEASURE UP?

Explicitly Targeted to High Cost Areas

$91 Million is Paid to Companies Receiving Less Than $1/loop/month

No Mechanism to Ensure High Cost Areas Receive Money

DOES THE EXISTING UNIVERSAL SERVICE FUND MEASURE UP?

Encourage Inefficient Investment

The Fund Rewards Deployment of High Cost Technology

The Fund Rewards High Administrative and Overhead Expenditures